

# **MILFORD MUNICIPAL UTILITIES**

INDEPENDENT AUDITOR'S REPORTS

FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION  
AND FINDINGS

JUNE 30, 2004

**David A. Maske**  
Certified Public Accountant  
Spencer, Iowa 51301

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**MILFORD MUNICIPAL UTILITIES**  
MILFORD, IOWA

JUNE 30, 2004

**OFFICIALS**  
(Before January, 2004)

<b>NAME</b>	<b>TITLE</b>	<b>TERM EXPIRES</b>
Don Brinkley	Trustee (Chairman)	12/31/2005
James Studer	Trustee (Vice-Chairman)	12/31/2007
Keith Wurtz	Trustee	12/31/2008
Don Payne	Trustee	12/31/2003
Steve Feld	Trustee	12/31/2006

**OFFICIALS**  
(After January, 2004)

Don Brinkley	Trustee (Chairman)	12/31/2005
James Studer	Trustee (Vice-Chairman)	12/31/2007
Keith Wurtz	Trustee	12/31/2008
Don Payne	Trustee	12/31/2009
Steve Feld	Trustee	12/31/2006

Robert Sewell	General Manager
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Joyce McCrea	Office Manager / Board Secretary
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# DAVID A. MASKE

## Certified Public Accountant

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P.O. Box 1297  
Spencer, IA 51301

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### INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Milford Municipal Utilities  
Milford, Iowa

I have audited the accompanying basic financial statements, listed as exhibits in the table of contents of this report, of the electric and water funds of the Milford Municipal Utilities as of June 30, 2004, and for the year then ended. These financial statements are the responsibility of the Utilities management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted the audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that the audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to in the first paragraph present fairly in all material respects the financial position of the electric and water funds of the Milford Municipal Utilities at June 30, 2004, and the results of those funds' operations and changes in cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 11, during the year ended June 30, 2004 the Utilities' adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statements No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, I have also issued my reports dated September 20, 2004, on my consideration of the Milford Municipal Utilities' internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, and contracts. Those reports are an integral part of an audit performed in accordance with General Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 3 through 4 and page 14 are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. I applied limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion of the financial statements taken as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The accompanying financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

DAVID A. MASKE  
Certified Public Accountant

September 20, 2004  
Spencer, Iowa

# **MILFORD MUNICIPAL UTILITIES**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2004**

Milford Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

### **2004 FINANCIAL HIGHLIGHTS**

- Operating revenue of the Utility-wide activities increased 9.8%, or approximately \$255,000 from fiscal 2003 to fiscal 2004. This was primarily from water revenue.
- Operating expenses increased 4.7%, or approximately \$115,000 in fiscal 2004 from fiscal 2003.
- The Utilities' total cash basis net assets increased 1.0%, or approximately \$93,200 from June 30, 2003 to June 30, 2004. Total liabilities decreased 7.75% or approximately \$221,000.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial activities.

The Utilities' basic financial statements consist of balance sheets, statements of revenue, expenses and changes in retained earnings and statements of cash flows. The statements provide information about the activities of the Utilities as a whole and present an overall view of the Utilities' finances.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

Other Supplementary Information provides detailed information about the Utilities' funds.

### **Basis of Accounting**

The Utilities maintains its financial records on accrual basis and the financial statements of the Utilities are prepared on that basis.

### **REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES**

One of the most important questions asked about the Utilities' finances is, "Is the Utilities as a whole better off or worse off as a result of the year's activities?" The Balance Sheets report information which helps answer this question.

The Balance Sheets presents the Utilities' net assets. Over time, increases or decreases in the Utilities' net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

#### *Financial Statements*

The required financial statements include a statement of revenue, expenses and changes in retained earnings.

**UTILITY WIDE FINANCIAL ANALYSIS**

A summary of the changes in retained earnings follows:

	Year ended June 30,	
	2004	2003
Revenue:		
Electric Utility	\$ 2,100,339	\$ 2,038,314
Water Utility	756,067	562,787
Interest	28,828	33,152
Other	2,927	5,160
Total Revenue	<u>\$ 2,888,161</u>	<u>\$ 2,639,413</u>
Expenses:		
Electric Utility	\$ 2,040,691	\$ 1,947,228
Water Utility	532,857	511,083
Total Expenses	<u>\$ 2,573,548</u>	<u>\$ 2,458,311</u>
Net Income	\$ 314,613	\$ 181,102
Retained Earnings - Beginning of Year	<u>6,049,198</u>	<u>5,868,096</u>
Retained Earnings - End of Year	<u>\$ 6,363,811</u>	<u>\$ 6,049,198</u>

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the Utilities did not exceed its budget.

**DEBT ADMINISTRATION**

At June 30, 2004, the Utilities has \$2,514,854 in bonds and notes outstanding, compared to \$2,705,000 last year.

The Utilities redeemed \$190,146 in debt during the year.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives.

**BASIC FINANCIAL STATEMENTS**

**MILFORD MUNICIPAL UTILITIES**  
**BALANCE SHEETS**  
**JUNE 30, 2004**

	<u><b>ASSETS</b></u>	<b>ELECTRIC FUND</b>	<b>WATER FUND</b>
<b>CURRENT ASSETS:</b>			
Cash on Hand and in Bank -----	\$ 42,761	\$ 93,138	
Cash in Savings and Certificates-----	529,304	33,716	
Consumers' Deposit Fund -----	42,600	-0-	
Accounts Receivable -----	205,840	104,194	
Inventory -----	305,494	36,406	
Prepaid Expenses -----	30,533	13,294	
Interest Receivable-----	1,700	384	
Other Receivables-----	22,962	1,386	
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 1,181,194</b>	<b>\$ 282,518</b>	
<b>FIXED ASSETS ( NOTE 2):</b>			
Fixed Assets -----	\$ 9,404,382	\$ 4,649,197	
Accumulated Depreciation -----	(4,766,490)	(1,833,884)	
<b>TOTAL FIXED ASSETS</b>	<b>\$ 4,637,892</b>	<b>\$ 2,815,313</b>	
<b>OTHER ASSETS:</b>			
Purchased Service Rights - At Cost -----	\$ 13,470	\$ -0-	
CTS - Acquisition Costs (Net) -----	54,465	-0-	
Loan Costs (Net)-----	27,963	-0-	
<b>TOTAL OTHER ASSETS</b>	<b>\$ 95,898</b>	<b>\$ -0-</b>	
<b>RESTRICTED ASSETS:</b>			
Revenue Bond Sinking Fund -----	\$ 89,637	\$ 20,497	
Principal & Interest Reserve -----	240,000	103,000	
Improvement & Extension -----	12,342	211,151	
CTS - Improvement Fund -----	250,279	-0-	
Sewer Fund - District & City -----	20,480	-0-	
Vehicle and Safety Equipment Funds-----	41,845	11,665	
Fuel Oil Fund -----	29,325	-0-	
Community Development Fund-----	44,618	-0-	
<b>TOTAL RESTRICTED FUNDS</b>	<b>\$ 728,526</b>	<b>\$ 346,313</b>	
<b>TOTAL ASSETS</b>	<b>\$ 6,643,510</b>	<b>\$ 3,444,144</b>	
	<u><b>LIABILITIES AND FUND EQUITY</b></u>		
<b>CURRENT LIABILITIES:</b>			
Accounts Payable -----	\$ 164,328	\$ 21,459	
Accrued Employee Benefits -----	15,676	3,164	
Accrued Interest -----	31,152	3,339	
Accrued Payroll Taxes -----	2,319	1,261	
Accrued Sales Tax -----	7,979	3,550	
Accrued Property Tax -----	18,666	-0-	
Accrued Wheeling -----	8,272	-0-	
Consumers' Deposits-----	33,047	-0-	
Current Portion Long-Term Debt -----	140,000	63,938	
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 421,439</b>	<b>\$ 96,711</b>	
<b>LONG-TERM DEBT (NOTE 3):</b>			
Revenue Capital Notes Payable-----	\$ 1,370,000	\$ 1,144,854	
LESS - Current Portion Above -----	140,000	63,938	
<b>TOTAL LONG-TERM DEBT</b>	<b>\$ 1,230,000</b>	<b>\$ 1,080,916</b>	
<b>TOTAL LIABILITIES</b>	<b>\$ 1,651,439</b>	<b>\$ 1,177,627</b>	
<b>FUND EQUITY:</b>			
CONTRIBUTED CAPITAL -----	\$ 1,355	\$ 893,422	
<b>RETAINED EARNINGS:</b>			
Restricted -----	\$ 727,627	\$ 346,313	
Unrestricted-----	4,263,089	1,026,782	
<b>TOTAL RETAINED EARNINGS</b>	<b>\$ 4,990,716</b>	<b>\$ 1,373,095</b>	
<b>TOTAL FUND EQUITY</b>	<b>\$ 4,992,071</b>	<b>\$ 2,266,517</b>	
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 6,643,510</b>	<b>\$ 3,444,144</b>	

See Accompanying Notes to Financial Statements .



**MILFORD MUNICIPAL UTILITIES**  
**STATEMENTS OF REVENUES, EXPENSES AND**  
**CHANGES IN RETAINED EARNINGS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

	<b>ELECTRIC FUND</b>	<b>WATER FUND</b>
REVENUE:		
Utility Operating Income -----	\$ 2,100,339	\$ 756,067
OPERATING EXPENSES:		
Direct Costs -----	\$ 1,128,520	\$ 98,155
Operating Expenses-----	257,136	126,915
Administrative Expenses -----	655,035	307,787
TOTAL OPERATING EXPENSES	<u>\$ 2,040,691</u>	<u>\$ 532,857</u>
OPERATING INCOME	<u>\$ 59,648</u>	<u>\$ 223,210</u>
NON-OPERATING INCOME:		
Interest-----	\$ 24,569	\$ 4,259
Other -----	2,927	-0-
TOTAL NON-OPERATING INCOME	<u>\$ 27,496</u>	<u>\$ 4,259</u>
NET INCOME	<u>\$ 87,144</u>	<u>\$ 227,469</u>
RETAINED EARNINGS - JULY 1, 2003	<u>4,903,572</u>	<u>1,145,626</u>
RETAINED EARNINGS - JUNE 30, 2004	<u>\$ 4,990,716</u>	<u>\$ 1,373,095</u>

See Accompanying Notes to Financial Statements.

**MILFORD MUNICIPAL UTILITIES**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

	<b>ELECTRIC FUND</b>	<b>WATER FUND</b>
CASH PROVIDED FROM (USED) FOR OPERATIONS:		
Operating Income-----	\$ 59,648	\$ 223,210
Other Income-----	2,927	-0-
Adjustments for Non-Cash Items:		
Depreciation & Amortization -----	271,044	136,716
	<u>\$ 333,619</u>	<u>\$ 359,926</u>
ADJUSTMENTS FOR WORKING CAPITAL CHANGES:		
Decrease (Increase) in Receivables-----	22,719	(26,068)
Decrease (Increase) in Inventory-----	(15,710)	2,525
Decrease (Increase) in Prepaid Expenses-----	931	(1,496)
Increase (Decrease) in Accounts Payable -----	(42,704)	9,853
Increase (Decrease) in Accrued Employee Benefits -----	314	(2,803)
Increase (Decrease) in Accrued Interest Payable-----	(2,841)	2,534
Increase (Decrease) in Accrued Taxes Payable -----	327	372
Increase (Decrease) in Consumer Deposits-----	3,671	-0-
CASH PROVIDED BY OPERATIONS	<u>\$ 300,326</u>	<u>\$ 344,843</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal Paid on Bonds & Notes-----	\$ (135,000)	\$ (55,146)
Acquisition of Fixed Assets -----	<u>(388,513)</u>	<u>(187,815)</u>
CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ (523,513)</u>	<u>\$ (242,961)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Income -----	<u>\$ 24,569</u>	<u>\$ 4,259</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$ (198,618)</u>	<u>\$ 106,141</u>
CASH AND CASH EQUIVALENTS - BEGINNING	<u>1,541,809</u>	<u>367,026</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 1,343,191</u>	<u>\$ 473,167</u>
Interest paid for year	<u>\$ 82,404</u>	<u>\$ 39,218</u>

See Accompanying Notes to Financial Statements.

**MILFORD MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY** - The financial statements include the enterprise funds of Electric and Water, which provide services to the residents of the City of Milford. The Milford Municipal Utilities is governed by a five-member board of trustees, which is appointed by the Mayor of the City of Milford. Based on the criteria set forth by the Governmental Accounting Standards Board, the Milford Municipal Utilities is considered a component unit of the City of Milford. However, the City's report does not include financial information concerning the Utilities. The Milford Municipal Utilities has no component units as set forth by GASB No. 14.

**FUND ACCOUNTING** - The accounts of the Milford Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The Milford Municipal Utilities maintains its records and prepares its financial statements on the accrual basis of accounting.

**INVENTORIES** - Inventories are valued at the lower of cost or market on a first-in, first-out (FIFO) basis.

**ACCOUNTS RECEIVABLE** - Accounts receivable and revenue are recorded at the time that service is billed. Unbilled revenue for service consumed between periodic scheduled billing dates is not considered to have a material effect on the financial statements. Accounts are reviewed annually; accounts considered uncollectable are written off at that time.

**BUDGETS AND BUDGETARY ACCOUNTING** - Starting with the fiscal year ending June 30, 1991, the Board of Trustees submits an annual budget prepared on an accrual basis independent from the City of Milford.

**CASH AND CASH EQUIVALENTS** - For the purposes of the statement of cash flows, the Utilities considers as cash and cash equivalents all currency on hand, demand deposits with banks or other financial institutions, certificates of deposits with an original maturity of six months or less, and other accounts that have the general characteristics of demand deposits in that the Utilities may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty.

**OTHER ASSETS** - CTS acquisition costs are being amortized on a straight-line basis over 25 years, and is presented at its net value. Loan costs related to issued capital notes are being amortized on a straight line basis over 15 years, and is presented at its net value.

**CURRENT LIABILITIES** - All current liabilities are accrued through the end of the fiscal year. The accrued wheeling and property taxes represent charges for the transmission of power over the power lines.

**RESTRICTED FUNDS** - Funds restricted by bond agreement or trustee action are presented as restricted assets and restricted retained earnings in the financial statements.

**USE OF ESTIMATES** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**INCOME TAXES** - Milford Municipal Utilities is exempt from federal and state income taxes.

**MILFORD MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2004**

**NOTE 2 - PROPERTY, PLANT AND EQUIPMENT:**

Property, Plant and Equipment are stated at cost. The report sets forth the original cost of the assets and accumulated depreciation thereon, based on depreciation rates commensurate with the average normal useful life of the various components of the plant and system. Subsequent additions to the plant and system are recorded on the basis of materials and direct labor costs only and no overhead to cover such items as payroll taxes, materials, handling and transportation has been capitalized. The Utility accounted for existing infrastructure through the use of an independent engineer's report.

Depreciation rates have been applied on a straight-line basis. Estimated useful lives, in years, for depreciable assets are as follows:

Building and Plant-----	20-50
Equipment -----	7-20
Distribution System -----	20-67

A summary of changes in fixed assets is as follows:

<b>-----WATER UTILITY PLANT-----</b>				
	<u>BALANCE</u> <u>AT JULY 1,</u> <u>2003</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>AT JUNE 30,</u> <u>2004</u>
<b>PRODUCTION PLANT:</b>				
Land-----	\$ 37,855	\$ -0-	\$ -0-	\$ 37,855
Buildings-----	1,819,241	-0-	-0-	1,819,241
Intakes-----	79,733	-0-	-0-	79,733
Equipment-----	859,242	38,101	-0-	897,343
Mains-----	<u>1,030,272</u>	<u>5,714</u>	<u>-0-</u>	<u>1,035,986</u>
	<u>\$ 3,826,343</u>	<u>\$ 43,815</u>	<u>\$ -0-</u>	<u>\$ 3,870,158</u>
<b>STORAGE AND DISTRIBUTION PLANT:</b>				
Towers-----	\$ 251,067	\$ -0-	\$ -0-	\$ 251,067
Mains, Hydrants and Service-----	219,113	-0-	-0-	219,113
Meters-----	<u>147,920</u>	<u>9,579</u>	<u>-0-</u>	<u>157,499</u>
	<u>\$ 618,100</u>	<u>\$ 9,579</u>	<u>\$ -0-</u>	<u>\$ 627,679</u>
<b>GENERAL PLANT:</b>				
Tools and Work Equipment-----	\$ 16,939	\$ -0-	\$ -0-	\$ 16,939
<b>CONSTRUCTION IN PROGRESS</b> -----	<u>\$ -0-</u>	<u>\$ 134,421</u>	<u>\$ -0-</u>	<u>\$ 134,421</u>
	<u>\$ 4,461,382</u>	<u>\$ 187,815</u>	<u>\$ -0-</u>	<u>\$ 4,649,197</u>
<b>-----ELECTRIC PLANT-----</b>				
	<u>BALANCE</u> <u>AT JULY 1,</u> <u>2003</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>AT JUNE 30,</u> <u>2004</u>
<b>PRODUCTION:</b>				
Land-----	\$ 72,365	\$ -0-	\$ -0-	\$ 72,365
Building-----	388,592	1,049	-0-	389,641
Machinery and Equipment-----	510,123	62,113	-0-	572,236
Accessory Electric Equipment-----	<u>764,155</u>	<u>-0-</u>	<u>-0-</u>	<u>764,155</u>
	<u>\$ 1,735,235</u>	<u>\$ 63,162</u>	<u>\$ -0-</u>	<u>\$ 1,798,397</u>
Neal #4-----	1,231,212	13,632	-0-	1,244,844
Common Transmission System-----	<u>1,097,510</u>	<u>64,104</u>	<u>-0-</u>	<u>1,161,614</u>
	<u>\$ 4,063,957</u>	<u>\$ 140,898</u>	<u>\$ -0-</u>	<u>\$ 4,204,855</u>
<b>DISTRIBUTION PLANT:</b>				
Distribution Facilities-----	\$ 4,443,595	\$ 202,306	\$ -0-	\$ 4,645,901
Street Lights & Signal Systems-----	<u>138,807</u>	<u>13,073</u>	<u>-0-</u>	<u>151,880</u>
	<u>\$ 4,582,402</u>	<u>\$ 215,379</u>	<u>\$ -0-</u>	<u>\$ 4,797,781</u>
<b>GENERAL PLANT:</b>				
Transportation Equipment-----	\$ 249,012	\$ 32,236	\$ -0-	\$ 281,248
Other Equipment-----	<u>120,498</u>	<u>-0-</u>	<u>-0-</u>	<u>120,498</u>
	<u>\$ 369,510</u>	<u>\$ 32,236</u>	<u>\$ -0-</u>	<u>\$ 401,746</u>
	<u>\$ 9,015,869</u>	<u>\$ 388,513</u>	<u>\$ -0-</u>	<u>\$ 9,404,382</u>

**MILFORD MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2004**

**NOTE 3 - LONG-TERM DEBT:**

ELECTRIC FUND:

During the year ended June 30, 1997, the Utility issued electric revenue notes in the amount of \$2,200,000 for the construction costs related to an addition to the power plant and improvements to the generation facilities. The notes bear interest of 4.40% - 5.65% and mature annually from February 1, 1999 to February 1, 2012.

The resolution providing for the issuance of the revenue notes provides for the creation of a Reserve Fund, into which shall be set aside an amount equal to the amount of annual principal and interest coming due on those notes.

A summary of the Electric Fund's June 30, 2004 long-term indebtedness is as follows:

<u>DUE YEAR</u> <u>ENDING</u> <u>JUNE 30,</u>	<u>AMOUNT</u>
2005	\$ 140,000
2006	150,000
2007	155,000
2008	165,000
2009	175,000
Thereafter	<u>585,000</u>
TOTAL	<u>\$ 1,370,000</u>

WATER FUND:

On June 24, 2003, the Utility issued a Water Revenue Refinancing Capital Loan Note – Series 2004, in the amount of \$1,200,000.

The note bears interest at the rate of 3.5% per annum and mature on August 1, 2003 through July 1, 2018. The monthly payment required is \$8,579, including interest.

The resolution providing for the issuance of the revenue notes provides for the creation of the following restricted asset accounts:

- A) Water Revenue Bond Sinking Fund into which there shall be set aside an amount sufficient to make the following month's payment.
- B) Reserve Fund into which there shall be set aside each month \$2,145 until \$102,948 has been accumulated and shall be used for meeting any deficiencies in the Sinking Fund.

**MILFORD MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2004**

**NOTE 3 - LONG-TERM DEBT (CONTINUED):**

WATER FUND (Continued):

<u>DUE YEAR</u> <u>ENDING</u> <u>JUNE 30,</u>	<u>WATER</u> <u>REVENUE NOTE</u>
2005-----	\$ 63,938
2006-----	66,211
2007-----	68,567
2008-----	70,719
2009-----	73,528
Thereafter -----	801,891
	<u>\$ 1,144,854</u>

A summary of the changes in long-term debt for the year ended June 30, 2004 are as follows:

<u>DESCRIPTION</u>	<u>ORIGINAL</u> <u>AMOUNT</u>	<u>INTEREST</u> <u>RATE</u>	<u>DUE</u> <u>DATE</u>	<u>BALANCE</u> <u>7/1/03</u>	<u>ISSUED</u>	<u>RETIRED</u>	<u>BALANCE</u> <u>6/30/04</u>
Water Revenue Notes	\$ 1,200,000	3.50%	2004-2018	\$ 1,200,000	-0-	\$ 55,146	\$ 1,144,854
Electric Revenue Notes	\$ 2,200,000	4.4-5.65%	1999-2012	1,505,000	-0-	135,000	1,370,000
TOTAL				<u>\$ 2,705,000</u>	<u>\$ -0-</u>	<u>\$ 190,146</u>	<u>\$ 2,514,854</u>

**NOTE 4 - PENSION AND RETIREMENT BENEFITS:**

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Utilities is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utilities contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$17,948, \$17,234, and \$16,433, respectively, equal to the required contributions for each year.

**NOTE 5 - DEPOSITS AND INVESTMENTS:**

The Utilities deposits in banks at June 30, 2004, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities are authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected purchase agreement; certain registered open-end management investment companies; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no investments at June 30, 2004.

**MILFORD MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2004**

**NOTE 6 - RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT  
OF CASH FLOWS TO THE BALANCE SHEET:**

	<u>BEGINNING</u> <u>OF YEAR</u>	<u>INCREASE</u> <u>(DECREASE)</u>	<u>END</u> <u>OF YEAR</u>
<u>ELECTRIC FUND:</u>			
Cash on Hand and in Bank-----	\$ 86,104	\$ (43,343)	\$ 42,761
Consumer Deposit Fund-----	38,582	4,018	42,600
Savings Accounts-----	525,106	27,445	552,551
Time CD's-----	647,213	(192,213)	455,000
CTS - Improvement Fund-----	<u>244,804</u>	<u>5,475</u>	<u>250,279</u>
	<u>\$ 1,541,809</u>	<u>\$ (198,618)</u>	<u>\$ 1,343,191</u>
<u>WATER FUND:</u>			
Cash in Bank-----	\$ (3,127)	\$ 96,265	\$ 93,138
Savings-----	225,433	51,596	277,029
Time CD's-----	<u>144,720</u>	<u>(41,720)</u>	<u>103,000</u>
	<u>\$ 367,026</u>	<u>\$ 106,141</u>	<u>\$ 473,167</u>

**NOTE 7 - COMPENSATED ABSENCES:**

The Utilities' employees accumulate vacation, sick leave, and "comp time" hours for subsequent use. The employees receive payment for accumulated vacation and "comp time" hours upon termination, retirement, or death, and therefore the appropriate liability has been recorded on the Utilities' records.

The employees are not compensated for accumulated sick leave hours upon termination, retirement, or death.

**NOTE 8 - INTEREST EXPENSE:**

Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. The Utilities had no capitalized interest during the year.

**NOTE 9 - RISK MANAGEMENT**

Milford Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 10 - RELATED PARTY TRANSACTIONS:**

The Utilities had business transactions between the Utilities and Utilities' officials totaling \$3,931 during the year ended June 30, 2004.

**MILFORD MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2004**

**NOTE 11 –ACCOUNTING CHANGE:**

Governmental Accounting Standards Boards Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the Utilities' financial activities.



## **REQUIRED SUPPLEMENTAL INFORMATION**

**MILFORD MUNICIPAL UTILITIES**  
**BUDGETARY COMPARISON SCHEDULE OF**  
**REVENUES, EXPENSES, AND CHANGES IN BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2004**

	<b>ACTUAL</b>	<b>BUDGET</b>	<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>
REVENUE:			
Charges for Services -----	\$ 2,856,406	\$ 2,737,330	\$ 119,076
Non-Operating -----	<u>31,755</u>	<u>58,355</u>	<u>(26,600)</u>
TOTAL REVENUE	<u>\$ 2,888,161</u>	<u>\$ 2,795,685</u>	<u>\$ 92,476</u>
EXPENSES:			
Electric .....	\$ 2,040,691	\$ 2,065,116	\$ 24,425
Water .....	<u>532,857</u>	<u>524,945</u>	<u>(7,912)</u>
TOTAL EXPENSES	<u>\$ 2,573,548</u>	<u>\$ 2,590,061</u>	<u>\$ 16,513</u>
NET INCOME	\$ 314,613	\$ 205,624	\$ 108,989
RETAINED EARNINGS - 7/1/03	<u>6,049,198</u>	<u>6,049,198</u>	<u>-0-</u>
RETAINED EARNINGS - 6/30/04	<u>\$ 6,363,811</u>	<u>\$ 6,254,822</u>	<u>\$ 108,989</u>

**MILFORD MUNICIPAL UTILITIES**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**  
**JUNE 30, 2004**

In accordance with the Code of Iowa, the Utilities annually adopts a budget, following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

## **OTHER SUPPLEMENTAL INFORMATION**

**MILFORD MUNICIPAL UTILITIES**  
**SCHEDULE OF OPERATING INCOME**  
**FOR THE YEAR ENDED JUNE 30, 2004**

	<b>ELECTRIC FUND</b>	<b>WATER FUND</b>
OPERATING INCOME:		
Utility Sales:		
Residential-----	\$ 768,657	\$ 361,956
Commercial -----	280,349	374,414
Demand -----	679,732	-0-
Tank Lot Water Sales-----	-0-	1,650
Public Authorities -----	48,202	-0-
Water Department-----	27,938	-0-
Neal # 4 Credits-----	87,501	-0-
Diesel Credits-----	192,192	-0-
	<u>\$ 2,084,571</u>	<u>\$ 738,020</u>
Other:		
Consumer Penalties-----	\$ 3,506	\$ 1,226
Miscellaneous Income-----	12,262	6,527
Meter Sales-----	-0-	10,294
	<u>\$ 15,768</u>	<u>\$ 18,047</u>
 TOTAL OPERATING INCOME	 <u>\$ 2,100,339</u>	 <u>\$ 756,067</u>

See Accompanying Independent Auditor's Report.

**MILFORD MUNICIPAL UTILITIES**  
**SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND**  
**ADMINISTRATIVE EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2004**

	<b>ELECTRIC FUND</b>	<b>WATER FUND</b>
<b>DIRECT COSTS:</b>		
Distribution Maintenance -----	\$ 25,920	\$ 3,548
Equipment Maintenance -----	20,741	6,542
Lab -----	-0-	11,767
Miscellaneous Direct Costs -----	2,150	-0-
Neal # 4 Charges - Coal, Oil, Power Generator -----	252,855	-0-
Plant Maintenance -----	2,899	1,157
Product - Chlorine & Fluoride -----	-0-	38,248
Purchased Power -----	-0-	28,263
Purchased Power - NIMECA -----	635,053	-0-
Purchased Power - WAPA -----	172,358	-0-
Sewer Charges -----	-0-	8,630
Wheeling -----	16,544	-0-
	<u>\$ 1,128,520</u>	<u>\$ 98,155</u>
<b>OPERATING EXPENSES:</b>		
Salaries -----	\$ 204,386	\$ 107,761
Small Tools & Supplies -----	3,892	891
Sub-Contractor -----	10,186	13,401
Vehicle Expense -----	31,115	3,169
Miscellaneous Operating Expenses -----	7,557	1,693
	<u>\$ 257,136</u>	<u>\$ 126,915</u>
<b>ADMINISTRATIVE EXPENSES:</b>		
Amortization -----	\$ 9,264	\$ -0-
Bad Debts -----	1,925	357
Building Maintenance - Office -----	3,268	2,486
Community Development -----	19,059	4,396
Computer Supplies & Programs -----	5,886	1,187
Depreciation -----	261,780	136,716
Director Fees -----	2,625	2,250
Dues & Subscriptions -----	4,888	1,037
Education & Safety -----	2,474	751
Employee Benefits -----	31,963	15,993
Engineer Fees -----	12,490	15,200
Insurance - General -----	31,343	16,604
Interest - Notes -----	78,742	41,752
Interest - Other -----	821	-0-
Laundry & Uniforms -----	1,214	483
Legal & Professional -----	21,912	7,118
Maintenance - Office Equipment -----	584	-0-
Miscellaneous -----	1,702	-0-
Office Supplies -----	8,580	5,519
Office Maintenance -----	7,055	-0-
Payroll Taxes - FICA & IPERS -----	26,838	14,341
Postage -----	6,238	5,136
Property Taxes -----	14,758	-0-
Rebates -----	11,362	-0-
Supplies -----	389	41
Sales Tax Paid -----	80,864	34,212
Telephone -----	4,542	1,587
Travel -----	2,494	503
Utilities & Sanitation -----	244	113
Inventory Adjustment -----	(269)	5
	<u>\$ 655,035</u>	<u>\$ 307,787</u>
	<u>\$ 2,040,691</u>	<u>\$ 532,857</u>

See Accompanying Independent Auditor's Report.

**MILFORD MUNICIPAL UTILITIES**  
**COMPARATIVE INFORMATION - ELECTRIC FUND**  
**FOR THE YEARS ENDED JUNE 30,**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total Current Assets -----	\$ 1,181,194	\$ 1,309,203	\$ 1,300,752
Book Value of Fixed Assets -----	4,637,892	4,511,159	4,421,464
Other Assets -----	95,898	105,162	114,426
Total Restricted Funds -----	<u>728,526</u>	<u>807,075</u>	<u>859,205</u>
 TOTAL ASSETS	 <u>\$ 6,643,510</u>	 <u>\$ 6,732,599</u>	 <u>\$ 6,695,847</u>
 Total Current Liabilities -----	 \$ 421,439	 \$ 457,672	 \$ 406,761
Total Long-Term Debt -----	1,230,000	1,370,000	1,505,000
Total Fund Equity -----	<u>4,992,071</u>	<u>4,904,927</u>	<u>4,784,086</u>
 TOTAL LIABILITIES AND EQUITY	 <u>\$ 6,643,510</u>	 <u>\$ 6,732,599</u>	 <u>\$ 6,695,847</u>
 OPERATING INCOME:			
Utility Sales:			
Residential -----	\$ 768,657	\$ 759,757	\$ 725,898
Commercial and Demand -----	960,081	881,394	824,903
Other -----	<u>371,601</u>	<u>397,163</u>	<u>324,253</u>
 TOTAL OPERATING INCOME	 \$ 2,100,339	 \$ 2,038,314	 \$ 1,875,054
 DIRECT COSTS (Schedule Attached) -----	 (1,128,520)	 (1,005,774)	 (830,365)
 OPERATING EXPENSES (Schedule Attached) -----	 (257,136)	 (256,333)	 (251,413)
 ADMINISTRATIVE EXPENSES (Schedule Attached) -----	 <u>(655,035)</u>	 <u>(685,121)</u>	 <u>(605,414)</u>
 OPERATING INCOME	 \$ 59,648	 \$ 91,086	 \$ 187,862
 NON-OPERATING INCOME	 <u>27,496</u>	 <u>29,755</u>	 <u>50,521</u>
 NET INCOME	 <u>\$ 87,144</u>	 <u>\$ 120,841</u>	 <u>\$ 238,383</u>

See Accompanying Independent Auditor's Report.

**MILFORD MUNICIPAL UTILITIES**  
**COMPARATIVE INFORMATION - ELECTRIC FUND - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30,**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>DIRECT COSTS:</b>			
Maintenance-----	\$ 49,560	\$ 73,185	\$ 64,967
Neal # 4 - Charges-----	252,855	207,279	180,221
Purchased Power-----	807,411	702,995	568,209
Wheeling-----	16,544	16,468	16,685
Other-----	<u>2,150</u>	<u>5,847</u>	<u>283</u>
<b>TOTAL DIRECT COSTS</b>	<u>\$ 1,128,520</u>	<u>\$ 1,005,774</u>	<u>\$ 830,365</u>
<b>OPERATING EXPENSES:</b>			
Salaries-----	\$ 204,386	\$ 195,551	\$ 186,762
Small Tools-----	3,892	5,763	3,151
Sub-Contractors-----	10,186	28,022	25,369
Vehicle Expense-----	31,115	17,724	26,232
Other-----	<u>7,557</u>	<u>9,273</u>	<u>9,899</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$ 257,136</u>	<u>\$ 256,333</u>	<u>\$ 251,413</u>
<b>ADMINISTRATIVE EXPENSES:</b>			
Advertising-----	\$ -0-	\$ 45	\$ 37
Bad Debts-----	1,925	2,790	1,338
Computer Supplies and Programs-----	5,886	9,397	5,690
Depreciation and Amortization-----	271,044	258,763	260,507
Director Fees-----	2,625	2,650	2,500
Dues and Subscriptions-----	4,888	6,633	4,339
Education and Safety-----	2,474	3,045	5,425
Employee Benefits-----	31,963	28,210	28,656
Engineering Fees-----	12,490	-0-	-0-
Insurance - General-----	31,343	26,151	21,037
Interest-----	79,563	86,011	92,240
Laundry and Uniforms-----	1,214	1,082	1,553
Legal and Professional-----	21,912	13,433	15,664
Maintenance-----	10,907	17,703	9,158
Office Supplies-----	8,580	1,351	3,806
Payroll Taxes-----	26,838	25,728	24,979
Postage-----	6,238	4,828	4,189
Property Taxes-----	14,758	15,471	11,079
Rebates-----	11,362	-0-	-0-
Sales Tax-----	80,864	80,650	92,195
Telephone and Utilities-----	4,786	4,083	3,952
Travel-----	2,494	2,490	4,014
Other-----	2,091	5,136	3,305
Community Development-----	19,059	89,471	9,751
Inventory Adjustment-----	<u>(269)</u>	<u>-0-</u>	<u>-0-</u>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<u>\$ 655,035</u>	<u>\$ 685,121</u>	<u>\$ 605,414</u>

See Accompanying Independent Auditor's Report.



**MILFORD MUNICIPAL UTILITIES**  
**COMPARATIVE INFORMATION - WATER FUND**  
**FOR THE YEARS ENDED JUNE 30,**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total Current Assets-----	\$ 282,518	\$ 163,423	\$ 170,052
Book Value of Fixed Assets-----	2,815,313	2,764,214	2,797,947
Total Restricted Funds-----	<u>346,313</u>	<u>334,228</u>	<u>303,924</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,444,144</u></b>	<b><u>\$ 3,261,865</u></b>	<b><u>\$ 3,271,923</u></b>
 Total Current Liabilities-----	 \$ 96,711	 \$ 79,337	 \$ 107,722
Total Long-Term Debt-----	1,080,916	1,143,480	1,185,414
Total Fund Equity-----	<u>2,266,517</u>	<u>2,039,048</u>	<u>1,978,787</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b><u>\$ 3,444,144</u></b>	<b><u>\$ 3,261,865</u></b>	<b><u>\$ 3,271,923</u></b>
 <b>OPERATING INCOME:</b>			
Utility Sales:			
Residential-----	\$ 361,956	\$ 290,584	\$ 276,157
Commercial-----	374,414	258,873	232,068
Tank Lot Water Sales-----	1,650	1,392	1,716
Other-----	<u>18,047</u>	<u>11,938</u>	<u>9,598</u>
<b>TOTAL OPERATING INCOME</b>	<b>\$ 756,067</b>	<b>\$ 562,787</b>	<b>\$ 519,539</b>
 DIRECT COSTS (Schedule Attached)-----	 (98,155)	 (80,859)	 (76,925)
OPERATING EXPENSES (Schedule Attached)-----	(126,915)	(119,289)	(110,170)
ADMINISTRATIVE EXPENSES (Schedule Attached)-----	<u>(307,787)</u>	<u>(310,935)</u>	<u>(285,041)</u>
<b>OPERATING INCOME</b>	<b>\$ 223,210</b>	<b>\$ 51,704</b>	<b>\$ 47,403</b>
 NON-OPERATING INCOME-----	 <u>4,259</u>	 <u>8,557</u>	 <u>15,184</u>
<b>NET INCOME</b>	<b><u>\$ 227,469</u></b>	<b><u>\$ 60,261</u></b>	<b><u>\$ 62,587</u></b>

See Accompanying Independent Auditor's Report.

**MILFORD MUNICIPAL UTILITIES**  
**COMPARATIVE INFORMATION - WATER FUND - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30,**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>DIRECT COSTS:</b>			
Chlorine & Fluoride -----	\$ 38,248	\$ 29,046	\$ 26,885
Maintenance-----	11,247	13,750	12,811
Purchased Power -----	28,263	18,335	16,856
Sewer Charges & Lab-----	<u>20,397</u>	<u>19,728</u>	<u>20,373</u>
<b>TOTAL DIRECT COSTS</b>	<b><u>\$ 98,155</u></b>	<b><u>\$ 80,859</u></b>	<b><u>\$ 76,925</u></b>
<b>OPERATING EXPENSES:</b>			
Salaries-----	\$ 107,761	\$ 103,989	\$ 99,008
Small Tools -----	891	251	1,698
Sub-Contractors -----	13,401	12,745	6,354
Vehicle Expense-----	3,169	1,080	828
Other -----	<u>1,693</u>	<u>1,224</u>	<u>2,282</u>
<b>TOTAL OPERATING EXPENSES</b>	<b><u>\$ 126,915</u></b>	<b><u>\$ 119,289</u></b>	<b><u>\$ 110,170</u></b>
<b>ADMINISTRATIVE EXPENSES:</b>			
Advertising-----	\$ -0-	\$ 45	\$ 7
Bad Debts-----	357	-0-	199
Community Development -----	4,396	-0-	-0-
Computer Supplies -----	1,187	980	13
Depreciation -----	136,716	134,573	123,919
Director Fees-----	2,250	2,525	2,300
Dues and Subscriptions -----	1,037	1,200	303
Education and Safety-----	751	1,224	1,029
Employee Benefits-----	15,993	17,132	10,232
Engineering Fees -----	15,200	-0-	-0-
Insurance - General -----	16,604	14,274	12,627
Interest-----	41,752	66,802	68,095
Laundry and Uniforms -----	483	794	505
Legal and Professional -----	7,118	21,371	16,650
Maintenance-----	2,486	-0-	-0-
Office Supplies-----	5,519	344	710
Payroll Taxes-----	14,341	13,914	13,388
Postage-----	5,136	4,324	3,019
Sales Tax -----	34,212	26,537	27,232
Telephone and Utilities-----	1,700	1,443	1,284
Travel -----	503	1,085	1,214
Other -----	<u>46</u>	<u>2,368</u>	<u>2,315</u>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b><u>\$ 307,787</u></b>	<b><u>\$ 310,935</u></b>	<b><u>\$ 285,041</u></b>

See Accompanying Independent Auditor's Report.

# DAVID A. MASKE

Certified Public Accountant

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P.O. Box 1297  
Spencer, IA 51301

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(fax) 712/262-6089

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Trustees  
Milford Municipal Utilities  
Milford, Iowa

I have audited the financial statements of Milford Municipal Utilities, as of and for the year ended June 30, 2004, and have issued my report thereon dated September 20, 2004. My report expressed an unqualified opinion on the financial statements, which were prepared in conformity with U.S. generally accepted accounting principles. I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether Milford Municipal Utilities financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of noncompliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the Utilities. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

### Internal Control Over Financial Reporting

In planning and performing my audit, I considered Milford Municipal Utilities' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Milford Municipal Utilities ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable condition described above, I believe Item 04-I-A is a material weakness. Prior year reportable conditions have been resolved except 04-I-A.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Milford and other parties to whom the Milford Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than those specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the Milford Municipal Utilities during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

**DAVID A. MASKE**  
Certified Public Accountant

September 20, 2004  
Spencer, Iowa

**MILFORD MUNICIPAL UTILITIES**  
**SCHEDULE OF FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

**PART I - FINDINGS RELATED TO FINANCIAL STATEMENTS:**

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- 04-I-A     Segregation of Duties - One employee handles most of the financial duties, including reconciling accounts and recording financial data. One important aspect of internal control is to prevent employees from handling duties which are incompatible.

RECOMMENDATION - I realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, I recommend the Board maintain its diligence in the review of the financial records.

RESPONSE - We will continue our review.

CONCLUSION - Response accepted.

**PART II - OTHER FINDINGS RELATED TO STATUTORY REPORTING:**

- 04-II-A     Official Depositories - A resolution naming official depositories has been approved by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

- 04-II-B     Certified Budget - Disbursements during the year ended June 30, 2004, did not exceed the amounts budgeted.

- 04-II-C     Questionable Disbursements - I noted no expenditures that did not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979.

- 04-II-D     Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.

- 04-II-E     Business Transactions - Business transactions between the Utilities and Utilities' officials are detailed as follows:

<u>NAME, TITLE AND BUSINESS CONNECTION</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
James Studer, Trustee Owner - Excel Auto Body Ltd.	Maintenance	\$ 3,931

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Trustee appear to represent conflicts of interest, since total transactions with the Trustee did exceed \$2,500 during the fiscal year. The Board should consult it's attorney to determine a resolution to the possible conflict.

Response: The amount spent is a total of smaller, individual transactions. We will review the matter with our attorney.

Conclusion: Response accepted.

- 04-II-F     Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions.

- 04-II-G     Board Minutes - No transactions were found that I believe should have been approved in the Trustee minutes but were not.

**MILFORD MUNICIPAL UTILITIES**  
**SCHEDULE OF FINDINGS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2004**

- 04-II-H     Revenue Bonds - The Utilities is in compliance with all aspects of the bond resolutions including cash reserves.
- 04-II-I     Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utilities' investment policies.